



County of Los Angeles CHIEF EXECUTIVE OFFICE

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First District

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Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

March 4, 2011

To: Mayor Michael D. Antonovich
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

From: William T Fujioka
Chief Executive Officer

A handwritten signature in black ink, appearing to read "W. T. Fujioka", is written over the printed name and title.

SACRAMENTO UPDATE

On March 3, 2011, the Conference Committee, on a party line vote, approved the final budget report and sent the package to the Senate and Assembly floors for votes which are expected by March 10, 2011.

As previously reported, the State faces a massive \$26.6 billion deficit through the end of FY 2011-12 and the Conference Committee addressed the budget shortfall by approving over \$12.5 billion in expenditure reductions, \$12.0 billion in revenue solutions, \$3.2 billion in special fund borrowing, and recommends establishing a \$1.1 billion reserve. Of major interest to the County, the Conference Committee approved \$6.0 billion in cuts to various health and human services, which would mostly affect County programs and the residents we serve. For the most part, the Conference Committee's actions generally embrace the Governor's January Budget proposals, including the protection of K-14 education funding.

The Conference Committee also approved the framework of the Governor's Realignment Proposal, as revised on February 25, 2011, which would shift \$5.9 billion State program and financial responsibilities for various public safety, child welfare services, adult protective services, and mental health programs to counties. The proposal would be funded with a 5-year extension of the existing sales tax and vehicle license fee rates, which would require voter approval at a statewide special election, which is targeted for June 7, 2011. While the State Budget can be approved by a

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majority of the Legislature, as a result of the passage of Proposition 25 of 2010, the extension of the tax rates for voter approval would require a two-thirds vote.

A big question for next week is whether Republican members will put up the votes to place the Constitutional Amendment on the June ballot to ask California voters to consider approval of the proposed tax extensions and specific protections for counties. Absent the two-thirds vote, or if the initiative is rejected by the voters in June, the Governor and the Legislature would be required to approve additional expenditure reductions in order to address the fiscal crisis and balance the State Budget.

Other major issues approved by the Conference Committee included:

- Elimination of redevelopment agencies for a \$1.7 billion in State General Fund savings, and the establishment of new redevelopment authorities to carry out local economic development efforts. According to various news reports, the League of California Cities and others consider the proposal unconstitutional and plans to sue to block it;
- Reduction to the CalWORKs Program for a \$1.1 billion in State General Fund savings, including proposals to limit benefits for adults from 60 months to 48 months (\$171.0 million); CalWORKs grant reductions of 8.0 percent (\$300.0 million); and cuts to the Single Allocation funding (\$427.0 million), among others cuts;
- Redirection of \$861.0 million in Mental Health Services Act (Proposition 63) funds from counties to cover State costs for the AB 3632 Program, Early Periodic Screening, Diagnosis and Treatment Program, and Mental Health Managed Care Program;
- A \$1.0 billion Medi-Cal reduction, which would be backfilled with \$1.0 billion in Proposition 10 funds. Specifically, this backfill directs local First 5 commissions to provide \$950.0 million and the State commission to provide \$50.0 million in reserves to cover Medi-Cal services for children 0-5 years of age. The Conference Committee, however, denied the proposal to shift 50.0 percent of local fund to the State on an ongoing basis; and
- Reductions to the In-Home Supportive Services Program to achieve the Governor's proposed State General Fund savings of \$486.1 million.

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Attached is a report with detailed information of Conference Committee actions of interest to the County. Because many of the trailer bills are not available in print, we continue working with affected departments to determine County impact.

We will continue to keep you advised.

WTF:RA
MR:OR:DS:IGEA:sb

Attachment

c: All Department Heads
Legislative Strategist
Local 721
Coalition of County Unions
California Contract Cities Association
Independent Cities Association
League of California Cities
City Managers Associations
Buddy Program Participants

FY 2011-12 Proposed State Budget Conference Committee Actions

Listed below are actions on items of importance to the County taken by the Conference Committee and other budget items.

Health

Medi-Cal Provider Payment Reduction. The budget committees adopted the Governor's Budget proposal to reduce payments to Medi-Cal providers by 10.0 percent effective June 1, 2011. **The Department of Health Services indicates that this proposal will result in an estimated County loss of \$10.0 million.**

Mandatory Medi-Cal Co-Payments. The budget committees adopted the Governor's Budget proposal to require co-payments for all Medi-Cal enrollees for physician and clinic visits, prescription drugs, hospital services, and dental services. **The Department of Health Services indicates that this proposal will result in an estimated County loss of \$10.0 million, to the extent that the payments are uncollected.**

Service Caps. The budget committees rejected the Governor's Budget proposed a hard cap of ten physician visits annually and six prescription outpatient drugs per month for Medi-Cal beneficiaries for a State General Fund savings of \$392.9 million. However, in an effort to achieve additional State General Fund savings of \$44.9 million, the Conference Committee adopted an alternative "soft cap" of 7 physician visits annually unless the physician "self-certifies" that additional visits are medically required. The cap would apply only to adults and would exclude children under 21 years of age, pregnant women, and residents in long-term care facilities. **We are working with the Department of Health Services to determine the impact to the County.**

Proposition 10 Commissions Reserve Funds Shift to Medi-Cal. The budget committees adopted a compromise to the Governor's Budget proposal to shift \$1.0 billion in State and local California Children and Families First Act (Proposition 10) Commissions reserve funds to support Medi-Cal services for children from birth to 5 years of age. The committees approved a one-time shift of Proposition 10 Commissions reserve funds in FY 2011-12, but rejected the Governor's proposal to transfer 50.0 percent from local Proposition 10 Commissions reserve funds to Medi-Cal on an ongoing basis.

Mental Health

Mental Health Services Act Funds. The budget committees adopted the Governor's Budget proposal of a one-time shift of \$866.6 million from the Mental Health Services Act (Proposition 63), which would have gone to counties, to the State General Fund to pay the State's obligation for the Mental Health Managed Care, Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) and the AB 3632 Special Education Programs. Beginning in FY 2012-13, funding and administration of these programs

would be shifted from the State to counties under the Governor's Realignment Proposal. Although the Governor's Budget indicates the shift of Proposition 63 funds could be enacted by the Legislature, the Department of Mental Health believes that this proposal would violate the non-supplantation provision of Proposition 63 and requires passage of a voter-approved initiative. A similar ballot initiative failed in the May 2009 Special Election. **The Department of Mental Health indicates that this proposal would redirect approximately \$241.1 million in funds that would have been available for the County for Proposition 63 services.**

Social Services

CalWORKs. The Conference Committee approved \$1.1 billion in reductions to the CalWORKs Program as follows:

- **48-Month Time Limit.** Adopted the Governor's Budget proposal to reduce the time limit for CalWORKs recipients from 60 cumulative months to 48 cumulative months, for a State General Fund savings of approximately \$13.0 million in FY 2010-11 and \$158.0 million in FY 2011-12.
- **Grant Reductions.** Approved an 8.0 percent grant reduction effective June 1, 2011, for a State General Fund savings of \$300.0 million. This action would reduce the CalWORKs grant for a family of three from \$694.0 to \$638.0 per month. Additionally, the committee approved additional grant reductions to cases without aided adults after certain periods of time on aid, for a State General Fund savings of approximately \$100.0 million.
- **Single Allocation Reduction.** Approved the Governor's Budget proposal to maintain the CalWORKs Single Allocation reduction included in the 2009 and 2010 State Budget Acts for a State General Fund savings of \$376.0 million. The Conference Committee approved additional reduction of \$50.0 million for a total Single Allocation reduction of \$426.0 million.
- **CalWORKs Stage One Child Care.** Approved reduction in CalWORKs Stage One Child Care for a State General Fund savings of \$69.0 million.
- **Earned Income Disregard.** Approved the Earned Income Disregard for working CalWORKs families and expanded the CalWORKs Subsidized Employment Program for a State General Fund savings of \$112.5 million.
- **Additional Reductions.** Adopted reductions of: 1) \$45.0 million in the CalLEARN Program; 2) \$5.0 million for CalWORKs substance and mental health services; and 3) \$5.0 million for the Statewide Automation Welfare System (this action does not impact the County's LEADER system which is fully funded in the Senate and Assembly Budgets). **According to DPSS, this action would result in a County loss of \$6.1 million for the CalLEARN Program and \$1.7 million for the Substance Abuse and Mental Health Programs.**

- **Community Challenge Grants.** Approved the elimination of \$20.0 million for Community Challenge Grants that are related to teen pregnancy prevention.

The Department of Public Social Services (DPSS) is working to determine the impact of these proposals to the County.

In-Home Supportive Services (IHSS) Program. The Conference Committee approved \$486.1 million in reductions to the IHSS Program as follows:

- **IHSS Services for Recipients Without Physician Certification.** Eliminated IHSS services for recipients without a physician certification for a State General Fund savings of \$152.0 million in FY 2011-12.
- **Caseload Savings.** Achieved \$83.4 million in State General Fund savings from adjusting caseload trends for FY 2010-11 and FY 2011-12 budget years based on demonstrated and more recent numbers of recipients and hours paid. This action does not impact the County.
- **Community First Choice Options.** Approved \$121.0 million in State General Fund savings achieved through expected approval of an additional 6.0 percent in FMAP as a result of IHSS qualifying under the new Federal Community First Choice Options.
- **State Funding for IHSS Advisory Committees.** Approved to eliminate State General Fund support for local IHSS Advisory Committees and eliminate the mandate, while retaining \$3,000 for each of the 56 Public Authorities (PA) to support the continued operation of Advisory Committees within the budget for PAs for an estimated savings of \$1.4 million in FY 2011-12.
- **Additional Savings.** Adopted savings of \$128.4 million with placeholder trailer bill language from proposals to be determined. **There is insufficient information at this time to determine impact.**

DPSS is working to determine the impact of these proposals to the County.

Transitional Housing Program-Plus (THP-Plus). The Conference Committee approved to defer the issue of funding for the THP-Plus to the Governor's proposal to realign Foster Care and Child Welfare Services. The Governor's Revised Realignment Proposal would restore \$19.0 million in FY 2011-12 to the THP-Plus for 18 and 19 year old foster youth proposed to be reduced in the FY 2011-12 Budget. The Senate Budget Committee approved a \$5.0 million reduction to the program. The Assembly Budget Committee adopted the Governor's Budget proposal to reflect savings as a result of the implementation of AB 12 which extends foster care services to youth up to 21 years of age, and provides funding of \$16.8 million for youth served in the program who are not served by AB 12. The \$19.0 million restoration of funding would restore an estimated

loss of \$564,000 and 21 beds to the Department of Children and Family Services.

Child Support Collections Suspension. The budget committees adopted the Governor's Budget proposal to suspend the County share of child support recoupment collections in FY 2011-12 estimated to be \$24.4 million statewide. Therefore, this was not a Conference Committee item. Currently, counties are entitled to retain 2.5 percent of child support collections. This would be retained at the State level and benefit the State General Fund under the Governor's proposal. **The Department of Child Support Services indicates that the County collects and retains approximately \$3.62 million in recoupment collections per year which would be suspended under the Governor's Budget proposal.** The \$3.62 million in recoupment collections are used to maintain current service levels for the County's child support program and also helps the County draw down a Federal match of 66.0 percent, resulting in a total potential estimated County loss of \$10.6 million.

Child Care and Development Programs. The Governor's Budget proposed \$716.0 million in funding reductions to child care and development services. The proposal included: 1) reducing the level of subsidies by 35.0 percent across the board while requiring programs to serve the same number of children; 2) imposing substantial, additional co-pays to participating families to make up the difference between the subsidy and the regular fee charged by the provider; 3) the elimination of services for 11 and 12 year old children; 4) reduction of eligibility for subsidized child development services from 75.0 percent to 60.0 percent of the State Median Income (SMI); and 5) elimination of funding for the Centralized Eligibility List (CEL), while allowing for greater flexibility at the local level to administer remaining child care and development funds.

- The budget committees rejected the 35.0 percent reduction to child care subsidies. The Assembly reduced all subsidized child care contracts by 10.0 percent. By contrast, the Senate proposed 13.0 percent reductions to certain subsidized child care programs, excluding Part-Day State Preschool and CalWORKs Stages 1 and 2. The Conference Committee adopted a compromise proposal of 15.0 percent across-the-board reduction, excluding Stage 1 and Stage 2 child care.
- The Assembly Budget Committee rejected the Governor's proposal to eliminate services for 11 and 12 year old children; the Senate Budget Committee approved the Governor's proposal, but exempted children in non-traditional hours of care. The Conference Committee adopted a compromise proposal to de-prioritize 11 and 12 year olds for before and after school programs. However, 11 and 12 year olds in non-traditional hours of care, or who are disabled, at-risk of abuse or homelessness, maintain their priority for service.

- The Assembly reduced the family income limit for subsidized child development services to 70.0 percent and the Senate to 60.0 percent of the SMI. The Conference Committee adopted the Assembly's version reducing eligibility to 70.0 percent of SMI.
- The Assembly and the Senate proposed reducing the reimbursement rate for license-exempt providers from 80.0 percent of the regional market rate. The Conference Committee adopted the Assembly and Senate's version to reduce the reimbursement rate to 60.0 percent for license-exempt providers.
- The Conference Committee also adopted a compromise proposal to reduce the Standard Reimbursement Rate for Title V programs by up to 10.0 percent, depending on the final Proposition 98 funding package.
- The Governor proposed imposing substantial, additional co-pays to participating families. The Conference Committee rejected the Governor's proposal to impose an additional co-payment and adopted a compromise to increase family fees by 10.0 percent.
- The Governor's Budget also proposed to set aside \$56.6 million to fund Stage 3 Child Care services from April 1, 2011 to June 30, 2011. The Assembly and Senate Budget Committees approved the restoration of Stage 3 Child Care services.

Central Eligibility List. The budget committees approved the elimination of funds to the CEL and the transfer of those funds to direct child care services. The CEL streamlines access to subsidized child care and maintains data on families with child care needs. The Chief Executive Office (CEO) Office of Child Care holds a \$500,000 contract with the California Department of Education/Child Development Division to administer the Los Angeles Centralized Eligibility List (LACEL). Currently 30,108 children are registered on the Los Angeles CEL. Families under the supervision of the Department of Children and Family Services (DCFS) or deemed at risk of abuse, neglect or exploitation receive priority for enrollment; currently 201 children have the child protective services priority standing. The CEO Office of Child Care estimates that the elimination of CEL would impact four staff positions in the Office of Child Care which are supported by CEL funding.

General Government

State Mandates. The Governor's Budget proposed to maintain the suspension of \$227.8 million in mandates not related to law enforcement or property taxes and develop a process with the Legislature whereby all reimbursable mandates are reviewed. Additionally, the Governor proposed the deferral of \$94.0 million as a result of deferring payment for costs incurred prior to FY 2004-05, and suspension of the Brown Act open meeting mandates in FY 2011-12 for a State General Fund savings of \$63.0 million.

The Assembly Budget Committee adopted the Governor's proposals with the exception of the suspension of the Brown Act open meeting mandates. The Senate Budget Committee adopted the Governor's proposal, but reduced the estimated savings. Because the Senate Budget Committee action did not conform to the Assembly Budget Committee action, the item was moved to the Conference Committee. The Conference Committee voted to retain the Brown Act open meeting mandate. However, the Committee indicated that funding will be included in the Realignment Proposal.

Public Library Funds. The Governor's Budget proposed to reduce State General Fund support for local libraries by \$30.4 million, resulting in the elimination of the Public Library Foundation, California Library Literacy and English Acquisition Services, and the California Library Services Act. The Conference Committee approved the reduction to Local Assistance Programs by \$15.0 million. **The Public Library indicates that this proposal would result in the County loss of \$1.07 million in funding for books and materials.**

Economic Development

Redevelopment Agencies. The Governor's Budget proposed to eliminate Redevelopment Agencies (RDAs) by prohibiting additional contract obligations, retiring existing RDA indebtedness and reallocating property tax revenues to schools, cities, counties, and non-enterprise special districts. In FY 2011-12, the Governor's proposal would shift an estimated \$5.2 billion in property tax increment revenues, including: \$2.2 billion to retire RDA debts and contractual obligations in accordance with existing payment schedules; \$1.1 billion to agencies based upon negotiated agreements and State statute (as an amount equal to the pass-through payments that would otherwise be received); \$1.7 billion to offset State General Fund costs for Medi-Cal (\$840.0 million) and trial courts (\$860.0 million); and \$210.0 million to cities, counties, and special districts proportionate to their current share of the countywide property tax allocation.

In FY 2012-13 and thereafter, the non-obligated portion of the RDA tax increment (revenue not needed for outstanding debt and contractual obligations) would flow instead to K-14 schools (\$1.0 billion), cities (\$490.0 million), counties (\$290.0 million), and non-enterprise special districts (\$100.0 million). The Governor also proposed a new option for funding economic development at the local level by calling for a constitutional amendment to provide for 55.0 percent voter approval for limited tax increases and bonding against local revenues for development projects similar to those currently funded through redevelopment.

The Conference Committee also considered a County-opposed counterproposal introduced by Mayors from ten of the largest cities that indicate it could result in \$1.7 billion for the State General Fund. The proposal was rejected by the Conference Committee.

The Conference Committee adopted the Governor's proposal to eliminate RDAs for State General Fund savings of \$1.7 billion with the addition of statutory language to allow jurisdictions to address transition issues through financial flexibility and other strategies. In addition, the Conference Committee anticipates further legislative deliberations regarding the appropriate local successor agency for RDAs, including affordable housing programs. The additional language from the Conference Committee to address the dissolution of RDAs has not been released. Once this language is available, the CEO will work with the departments to more fully determine the impact.

The Chief Executive Office Operations Cluster estimates that the reallocation of \$210.0 million in FY 2011-12 to cities, counties and special districts, would result in approximately \$52.5 million for all taxing entities in the County and about \$15.0 million to \$21.0 million for the County State General Fund in FY 2011-12. In FY 2009-10, the loss to community redevelopment agencies (net of pass-through payments) was \$530.8 million, including \$452.7 million to the County State General Fund; \$51.3 million to the Fire District; \$18.3 million to Flood Districts; and \$8.5 million to the Public Library. In general, the proposal to divert tax increment from RDAs to the local taxing entities would significantly benefit the County State General Fund, Fire, Flood and Library Districts.

The Community Development Commission (CDC) estimates that **this proposal would eliminate the Redevelopment Agency for Los Angeles County and would result in a loss of approximately \$67.7 million in redevelopment funds and \$22.3 million in low- and moderate-income housing funds over the lives of the County's existing redevelopment projects.** The CDC also indicates the proposal would result in the loss of the tax increment and low- and moderate-income housing funds that funds the City of Industry program, which was estimated to provide \$100.0 million in low- and moderate-income housing funds for use within the County over the next six years. In addition, the CDC indicates that the Department of Finance has released draft Trailer Bill language that includes a provision that may jeopardize the continuation of all CDC non-Housing Authority programs. The CDC's non-Housing Authority programs total approximately \$167.0 million including over 47 cities participating in the Community Development Block Grant Urban County Program. According to the CDC, this draft language provision would dissolve the CDC and could potentially lead to contractual issues and subsequent litigation between the County and multiple jurisdictions.

Enterprise Zones. The Governor's Budget proposed to eliminate all Enterprise Zone tax incentives and similar tax incentives for specific areas for tax years beginning on or after January 1, 2011. This proposal would eliminate all tax benefits, both for newly earned credits and deductions, as well as for credits that had been earned in prior years, but had not yet been used. The elimination of Enterprise Zone tax incentives and similar tax incentives is estimated to generate additional revenues of \$924.0 million to the State. The Conference Committee adopted the Governor's proposal to eliminate tax incentives associated with Enterprise Zones and various other economic incentive areas. The CDC indicates that this proposal would negatively impact the County's East Los Angeles, Harbor Gateway Communities and Santa Clarita Valley Enterprise Zones

and the zones in the Cities of Lancaster/Palmdale, Santa Clarita, Pasadena, Los Angeles, South Gate/Lynwood, Compton, Long Beach and a conditional zone in Huntington Park. According to the CDC, the loss of these Enterprise Zones would have wide-ranging negative impacts to the County's economy and individual local economies.

Housing Bonds Reduction. The Governor's January Budget proposed a reduction of \$99.0 million in FY 2011-12 to reflect a one-time pause in the issuance of State bonds for new loans and grants for housing projects. According to the Administration, this does not affect projects that are already underway. The Conference Committee adopted the Governor's proposal for a spring bond pause, but allows the California Department of Housing and Community Development to resume issuing housing bonds for new loans and grants in the fall. The CDC indicates that this proposal would negatively impact the development of new projects reliant upon State subsidies as part of their financing mechanism and would have a detrimental effect on the progress being made to address the lack of affordable housing in the County; however, the CDC appreciates the recommendation to only temporarily pause this financing mechanism.

Environment and Natural Resources

State Parks Reduction. The Governor's Budget proposed a State General Fund reduction of \$11.0 million which would result in the partial or full closing of some State Park units and reductions to the California Department of Parks and Recreation (CDPR) headquarters. CDPR would work with stakeholders and local communities to explore partnership opportunities. When fully implemented, the closures and transfers are expected to achieve \$22.0 million in ongoing State General Fund savings. The Conference Committee adopted the Governor's proposal to reduce the CDPR's State General Fund Budget by \$11.0 million in the budget year and \$22.0 million in ongoing savings. The Department of Beaches and Harbors (DBH) indicates that the proposal may have an undetermined indirect impact on County facilities adjacent to the State park facilities that would be closed. DBH and the Department of Parks and Recreation indicate that the proposal to close some State parks may result in increased attendance at the County facilities. The Administration has requested CDPR to develop a plan to close or reduce the hours of State park facilities to meet the proposed cuts and to determine solutions to limit the need for State General Fund resources. **The CEO will work with the departments to more fully determine the impact of this proposal when further details of the plan are released by CDPR.**

Department of Food and Agriculture Baseline Reduction. The Governor's January Budget proposed a State General Fund reduction of \$15.0 million for the California Department of Food and Agriculture (CDFA). The CDFA has not released details on how this reduction will be achieved. The Conference Committee adopted the Governor's proposal to reduce the CDFA State General Fund by \$15.0 million. **The CEO will work with County Agricultural Commissioner/Weights and Measures to more fully determine the impact of this proposal when further details of the plan are released by CDFA.**

California Science Center. The Governor's Budget proposed a State General Fund reduction of \$15.0 million for the California Science Center. The Conference Committee cuts the unallocated reduction for the California Science Center by \$1.7 million and adopts budget bill language in lieu of trailer bill language. **The CEO will work with Natural History Museum to more fully determine the impact of this proposal when further details of the reduction plan are released.**

Transportation

Re-enactment of Fuel Tax Swap. The Legislature adopted the Governor's FY 2011-12 Proposed Budget recommendation to adopt trailer bill legislation to re-enact the 2010 fuel tax swap. Therefore, this issue was not a part of the Conference Committee and will be included in the final proposed Budget to be voted on by the Legislature sometime next week.

The "fuel tax swap", enacted by ABX8 6 (Chapter 11 of 2010, Eighth Special Session) and ABX8 9 (Chapter 11 of 2010, Eighth Special Session), and later modified by SB 70 (Chapter 9 of 2010), eliminated the sales tax on gasoline and replaced it with a 17.3 cent excise tax increase indexed to keep pace with what the sales tax on gasoline would have generated in a given fiscal year to ensure revenue neutrality.

The fuel tax swap, which was enacted by a majority vote of the Legislature, also increased the sales tax rate on diesel by 1.75 percent, reduced the excise tax on diesel to 13.6 cents, and provided an exemption to hold harmless entities that would be impacted from the change. The 17.3 cent excise tax increase is expected to generate approximately \$2.5 billion in transportation funding and provide about \$1.1 billion in State General Fund savings for Fiscal Years 2010-11 and 2011-12.

A primary reason for enacting the swap was to remove transportation funding from the annual budget debate and provide State General Fund savings by paying transportation bond debt from the excise tax. However, Proposition 22 on the November 2010 ballot restricts the Legislature's ability to utilize Highway Users Tax Account (HUTA) revenues for bond debt service and Proposition 26 of 2010 calls into question the legality of the gas tax swap by requiring that taxes and fee increases be passed by a two-thirds vote. Since the fuel tax swap was enacted by a majority vote, Proposition 26 could invalidate the tax provisions contained in the fuel tax swap legislation in November 2011.

In response to the impact of Propositions 22 and 26 on the fuel tax swap, the Governor's Proposed Budget recommended trailer bill legislation to reenact the fuel tax swap in addition to dedicating weight fees (\$800.0 to \$900.0 million annually) for bond debt service and loans to the State General Fund. The Department of Public Works (DPW) indicates that the failure to reenact the fuel tax swap with a two-thirds vote could mean the loss of \$61.0 million annually to the department for local streets and roads. In addition, since Proposition 22 limits the use of HUTA for bond debt service, DPW states that another source of revenue must be included to backfill the loss of excise tax

revenue for bond debt service. DPW indicates that Governor's proposal to dedicate weight fees for bond debt service would not impact the department.

The Department of Finance released draft Trailer Bill Language (TBL) last month to reenact the fuel tax swap and dedicate weight fees for bond debt service and loans to the State General Fund. Specifically, the draft TBL would: 1) validate the tax provisions contained in ABX8 6 with a two-thirds vote of the Legislature; 2) approve the transfer of transportation weight fees from the State Highway Account to the State General Fund to pay for transportation bond debt service; 3) reenact the allocation formula in ABX8 9 that allows the replacement tax of the 17.3 cents excise tax on gasoline to be allocated to the State Transportation Improvement Program, the State Highway Operations Preservation Program, and to cities and counties for street and road repair; and 4) continue public transit operations funding provided by the sales tax on diesel fuel.

Passage of the proposed trailer bill language would help protect the \$61.0 million annual transportation allocation to DPW. The County has existing general policy to support the protection of the transportation revenues received by DPW. However, there is no existing County policy to support the proposed TBL provisions which would dedicate transportation weight fees for bond debt service.

The fuel tax swap reenactment is supported by a broad coalition, including the League of California Cities, California State Association of Counties, California Alliance for Jobs, California Transit Association, and Transportation California. There is no known opposition at this time.